Gas-price climb fed by many factors

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As Americans prepare for Memorial Day weekend and the busy driving season it ushers in, gas prices — already exceeding $4 a gallon in much of the country — threaten to thwart vacation plans and slow the economic recovery.

Gas prices typically climb by about 5 percent in summer, and they've already risen steeply this year. From Jan. 3 through May 16, the tab for a gallon of regular unleaded rose from $3.07 to $3.96 — a 29 percent jump. During the same period last year, it went up about 7 percent.

High crude-oil costs are being driven in large measure by Mideast turmoil and unprecedented worldwide demand, led by countries such as China and India. But other factors — including market speculation, refining margins and rising corn ethanol prices — add to the pump price, some market observers say.

Tracing oil from the ground to the gas pump reveals how these costs add up.

High prices correspond with record oil consumption. Worldwide use of crude oil and liquid fuels grew by 2.3 million barrels a day in 2010, reaching a record 86.7 million barrels a day, the federal Energy Information Agency reported. The agency predicted consumption would continue growing — by 1.5 million barrels a day this year and by an additional 1.6 million barrels a day in 2012.

There are some signs the price may have already peaked: The price of a barrel of crude oil dropped from $103 on May 10 to $96 on May 17, the energy agency reported. It was $70 a year ago.

One key influence on the price motorists pay is the Organization of Petroleum Exporting Countries. The cartel of 12 oil-rich countries produces about 42 percent of the world's oil, its website says.

If OPEC countries "were all investing full-out in production capacity ... the price would be lower," said Mark Cooper, research director for the Consumer Federation of America, a group of nonprofit consumer organizations.

But, Cooper said, OPEC sets gasoline export levels artificially low. Restricting the supply pushes up pump prices by as much as 80 cents a gallon.

Another factor is simple economics, some say.

International demand, coupled with production, determines the market price of crude oil, said John Felmy, chief economist at the American Petroleum Institute, a trade group representing oil producers, refiners and transporters.

Others think that market manipulators drive up the cost of crude oil.

"There's no shortage of crude. There's an excess of

speculation," Cooper said.

He said speculators create huge fluctuations in crude prices — and collect about 20 cents of every dollar spent on gasoline.

Among the biggest beneficiaries of higher prices are gas companies that extract oil from beneath the earth's surface.

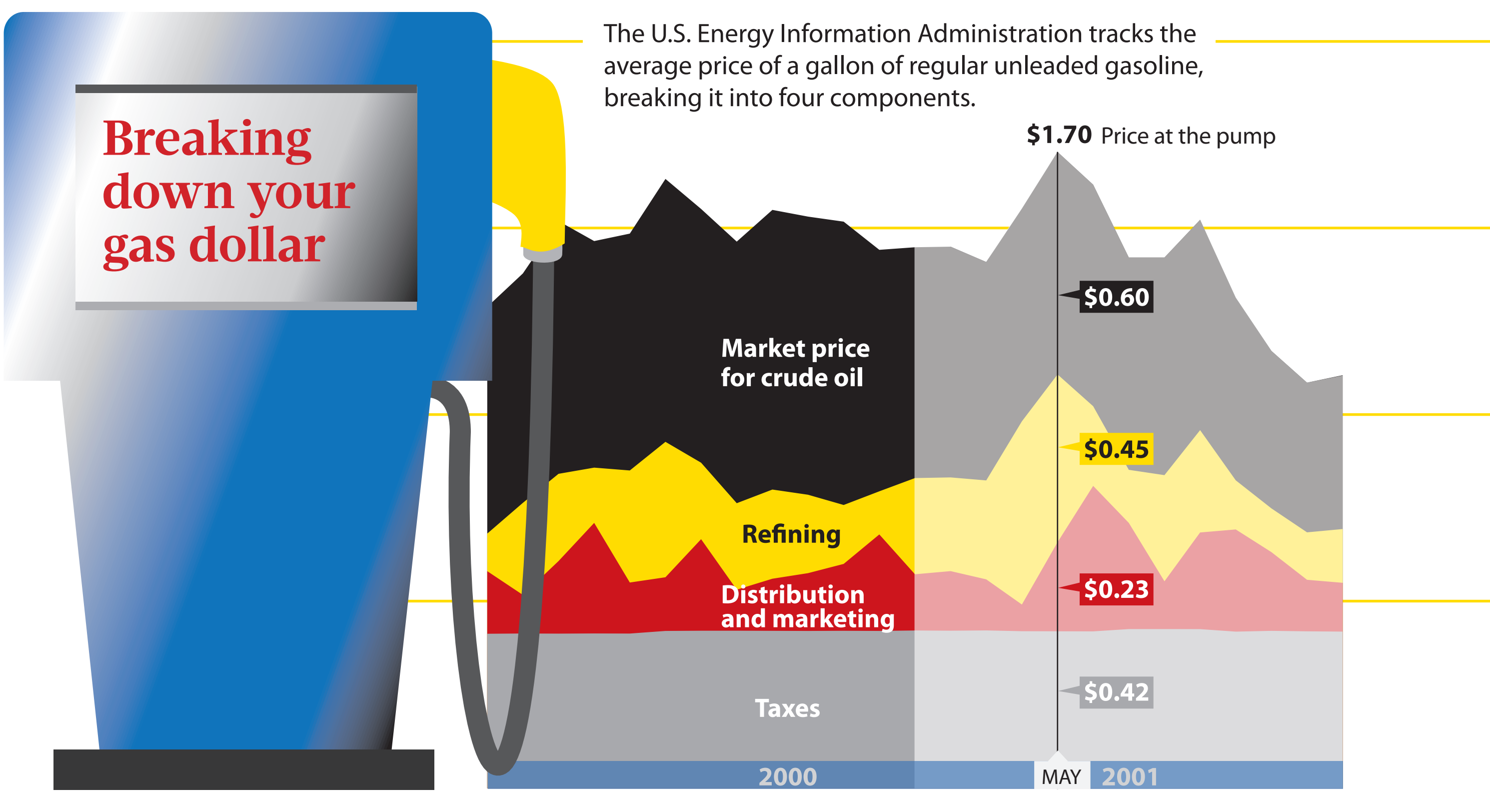
ExxonMobil Corp., the world's largest publicly traded oil company, reported April 28 that its first-quarter earnings rose 69 percent over the same period a year earlier, from $6.3 billion in 2010 to $10.7 billion in 2011. Earnings for Chevron, America's second-largest oil company, jumped 36 percent, from $4.6 billion in the first quarter of 2010 to $6.2 billion during the same period in 2011.

Following the 2008 gas-price spike — when prices peaked in mid-July at $4.11 for a gallon of regular unleaded — Congress tasked the U.S. Commodity Futures Trading Commission with tightening rules on speculation. The concern was that market investors were betting on, and driving up, the price.

On Jan. 26, the commission published a proposal to curb speculation; it has received thousands of comment letters from the public, politicians and trade groups. It's unclear when the agency will publish final rules — or what they'll look like.

The U.S. Department of Justice announced in April it would investigate whether manipulators were driving up the price of oil. And in May, the Democrat-led Senate introduced legislation — unlikely to become law — to remove billions of dollars in subsidies to gas companies.

Once crude oil has been extracted and purchased on an international market, it's refined. Refineries worldwide — including those in the U.S., concentrated in the Gulf Coast — heat, clean and separate the oil



into fuels, including gasoline and diesel.

Refiners' earnings have shot up in recent months — from 12.6 cents a gallon in November to 46.6 cents in March, the energy agency reported. Felmy said refiners typically earn about 20 cents for every gallon they process.

Refiners and others can lose money, too, when plunging prices require them to sell gas for less than the crude oil they bought. In November 2008, after the price of gas crashed, refiners lost 8 cents a gallon.

Adding to the pump price is corn ethanol, an alcohol mixed with gas to create a cleaner, "green" fuel. It can account for up to 10 percent of some gasoline blends. From January to May 12, prices for ethanol futures rose 4.8 percent, to $2.49 a gallon, the financial news service Bloomberg reported.

American cars' consumption of ethanol is likely to grow. The federal Environmental Protection Agency announced in January that it has raised the ethanol cap to 15 percent of a gasoline blend. States in the corn-growing Midwest are most likely to be the first to adopt the higher ethanol limit, predicts Troy Green, spokesman for the AAA motor club.

There's also growing concern that diverting cropland from food to fuel production is contributing to a worldwide food crisis.

Global food prices jumped 36 percent over last year, in part because of increased fuel production. "More poor people are suffering...because of high and volatile food prices," World Bank Group President Robert Zoellick said at the start of a mid-April global forum on food.

Factors closer to home also affect how much motorists pay. Gas often costs more in wealthy neighborhoods because service stations must pass along higher real estate costs, AAA's Green said.

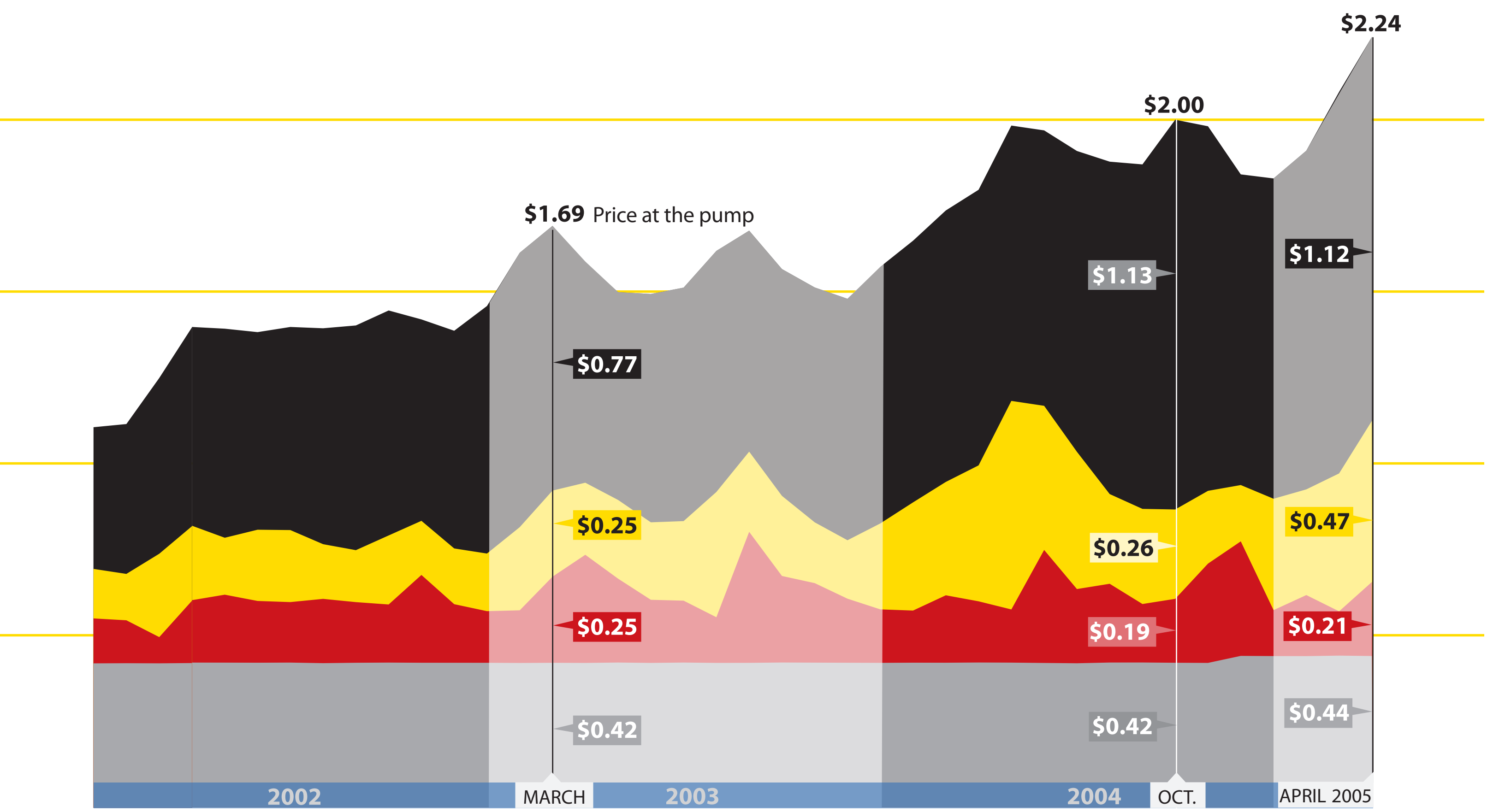


Photo courtesy of Laura Gangi Pond/Shutterstock Images

Credit card companies do well when prices are high, because they rake in 2.5 percent of the transaction cost as opposed to a flat fee, said the National Association of Convenience Stores, a trade group representing gas stations.

Gas stations often wrongly get blamed for price hikes, said Jeff Lenard, spokesman for the group, based in Alexandria, Va.

"The sign says major oil company, but the ownership [record] says otherwise," Lenard said. Retailers get marketing support to "sell a brand of liquid. ... Nobody who goes inside the store and sees the Coke or Pepsi dispenser thinks the store is owned by Coke or Pepsi."

Retailers earn roughly 14 cents for every gallon of gas sold, NACS reports. Green, of AAA, says they could make more profit selling 12 ounces of coffee than 12 gallons of gas. "There's more profit on anything inside the store than there is for gas," Lenard agreed.

As further evidence of low profit in retail gas sales, Lenard observed that most of the five major "integrated" oil companies — those that produce, refine and distribute gas — are getting out of the retail business. BP and Conoco Phillips already have, and ExxonMobil, with 540 stores, has announced its intent to do so. Chevron has 403 outlets and Shell has 23.

Seasonal changes also affect price.

To comply with the federal Clean Air Act, refiners have to switch to their summer blend formulas for many metropolitan markets on or around May 1 each year, Lenard said. To minimize smog that's more prevalent in warm weather, "the fuels are more complex" — and more expensive to make.

Even if crude prices don't change, gas prices tend to climb about 5 percent in summer because more motorists are on the road, the federal energy agency reports.

It could be a long, uncomfortable summer.